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Conference Call Transcript

Uflex

Q2FY19 Results

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Corporate Participants

Mr. Anantshree Chaturvedi
Vice Chairman

Mr Rajesh Bhatia
Group CFO

Mr Rajesh Agrawal
Vice President – Investor Relations

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the Uflex Q2 FY19 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Shradha Sheth from Edelweiss Securities. Thank you and over to you, ma'am.

Shradha Sheth: Thank you, Karuna. On behalf of Edelweiss, let me welcome you all to the Q2 FY19 earnings call of Uflex Ltd. From the management today, we have Mr. Anantshree Chaturvedi – the Vice Chairman; Mr. Rajesh Bhatia – Group CFO and Mr. Rajesh Agarwal, the VP Investor Relations. So, without any further ado, I will hand over the call to Mr. Agarwal and take the call from here. Thank you and over to you, Rajesh.

RajeshAgrawal: Thank you, Shradha. Good evening everyone and welcome to the second quarter 2019 earnings call of Uflex Limited. On the call today, we have Vice Chairman – Mr. Anantshree Chaturvedi; Mr. Rajesh Bhatia – Group CFO and other members of the senior management team.

Let me quickly give a brief introduction of Mr. Chaturvedi. Mr. Anantshree Chaturvedi holds a graduate degree from Babson College with the triple major in Finance, Global Strategic Management and Economy. He learned the trade of flexible packaging both domestically and internationally with hands-on experience as a trainee and apprentice in India, Mexico, Poland, Egypt, UAE and subsequently spearheaded the expansion of Uflex in the United States of America. He is currently serving as Vice Chairman – Flex Films and he is heading the Overseas business.

Mr. Anantshree Chaturvedi brings with him a vast array of experience right from his first job at the age of 15 as an intern and assistant to the late US senator, Edward M. Kennedy followed by Stints at DreamWorks, TJ Maxx, Accenture, Mubadala and his own Venture Capital firm that he confounded while at college. Mr. Chaturvedi is additionally vested with the responsibility of Global Product Stability, R&D, HR Protocols and also dons the hat of Chief Cultural Officer at Uflex.

Before we begin, I would like to remind you that management will make forward looking statements during the course of this call and our actual results could differ materially. Uflex assumes no obligation to update any forward-looking statements or information which speaks as of the respective dates. Speaking first today is the Group CFO, Mr. Rajesh Bhatia and then he will be followed by Vice Chairman, Mr. Chaturvedi. After that, we will open the call to questions from analysts. Over to you, Mr. Bhatia.

Rajesh Bhatia: Thank you and first of all, let me wish all of you a happy Dhanteras and Diwali. My pray to Almighty that this Diwali may bring the best of fortunes for you. I know that the markets are not doing so well currently, so all the more important that these wishes are come through and I really hope that everybody is able to enjoy this festival with their families and all the best to everyone.

Coming to the Q2 results for the quarter and as we had demonstrated in the Q1 itself that the production volume was up 10.5% in the Q1 and sales volume was up above 12.7% in Q1. So Q2 on both these parameters has also reported reasonable growth, so total production volume for Q2 is again up by about 9.5% and the sales volume is up 10.5% on Y-o-Y basis resulting in 26% growth in our revenues which is partially coming from the volume growth and partially from the raw material prices increase as we see that in the Q2 of FY18, we had crude ranging in the range of about $47 to $50 and in Q2 FY19, we have the crude ranging from $68 to $72, $73, so that is what really explains the 26% growth in revenues which is driven by about 10.6% sales volume growth and rest is on account of the raw material variations. EBITDA level, again we have been able to demonstrate a very steady growth in the EBITDA level, so EBITDA for the quarter is again up about 12% as compared to the Q2 of last year and on an H1 basis also, the EBITDA is about 10% higher as compared to the H1 of FY18.

At a PAT level, we were marginally up as we had explained in the calls last time also that this is due to the effect of higher interest cost as well as the depreciation, which we are incurring for the Sanand facility which currently is not reflecting in the business of that, so there are still under recoveries on that account and I think as we go along, we will ensure that that business has ramped up as quickly as possible, so that about 20 crores which is on account of interest and depreciation of these two, that has to be absorbed by higher volumes coming from our aseptic packaging business. This quarter also gives me the pleasure to tell you that this is the highest ever quarter, the turnover we have achieved in a quarter of about 2000 crores.

On a standalone basis, again this has been the quarter where we have achieved a highest ever turnover and the individual businesses, packaging films India as well as, if we see the overall packaging film volumes, I think they are also the highest ever in a quarter and the India packaging film business as well as the Poland packaging film business have also given their best volume performance during this quarter and we had this quarter some mark to market because of the foreign exchange fluctuations of about 8 crores, but this EBITDA is considering all those effects of that foreign exchange fluctuation as we see the Indian rupee depreciating substantially against the dollar during this quarter, but largely in the Indian businesses, we are not hedging any of our imports or our dollar liabilities, so that has come to affect the EBITDA a bit and the EBITDA of 265 crores this quarter has about 8 crores on account of the foreign exchange fluctuations without which it could have been about 273 crores as we say.

So the main theme this financial year has been that we have been able to grow our volumes both on the production as well as the sales side. We are ensuring that the capacities what we have already installed are utilized to the max and that is where they ultimately result in higher revenue and higher profitability and focus is clearly on improving the utilization levels and also make the aseptic packaging business sustainable as we go in the H2 of FY19 and we had given a guidance that we are looking at about 1.5 billion packs exit run rate. I think we still are sure of achieving that number by March 19 and that's where sort of we are.

On the debt side, there is no really anything to report because there have been normal repayments which have been made. There hasn't been much debt which has been added because of any fresh loans taken and there were some small amounts of the facilities which we had already committed which were drawn down during this period, but again on a net basis, we have not added any debt during this quarter. As I have been saying that the EBITDA margins for the polyester, BOPET films continue to be good and they were better in this quarter also and today the increased profitability is definitely taking higher BOPET prices into consideration. On the packaging side, whenever you have abnormal increase in the raw material prices that affects the profitability of that business because as I have said earlier, there is always a lag in that business of between 1 month to 3 months, so stable crude as well as stable exchange works very well for that business, but during these turbulent times, we are also talking to some of our customers that such a wide variation in the prices affects the stability of the business, sustainability of the businesses. So we keep on talking to them about how do we make it more sustainable both for us as well as for them and clearly as we go along into the H2, the endeavour is to piggyback on the volume growth coming from the films division as well as the packaging division.

The packaging division still we have much more headroom to increase our production. We have enough capacity, we today doing about, this quarter we did about 21,000 tonnes which means about 85,000 tonnes on an annualized basis, but we have headroom there because currently excluding aseptic packaging business, we have capacity of about 135,000 tonnes in the packaging business which we are looking to ramp up as we go into the H2 and the subsequent period. So overall, good quarter for us in terms of physical as well as the financial performance and there had been lot of product innovations. There is a lot of noise around the recyclability and I think as we go along into the call, I will request Anantshree Chaturvedi to inform you about some of the new product launches that we have done, some of the R&D efforts as well as the other efforts on the product side which we keep on doing, obviously the endeavour is to be giving first solutions to the customers and keep on innovating this so that commoditized things how can you extract the maximum value out of your innovation which you ultimately have to offer to the customers. That is more or less sums up the performance for this quarter and I will hand over to Rajesh to further steer the discussions.

Rajesh Agrawal: We may now request Mr. Anantshree Chaturvedi to give some light on the products and the R&D efforts and then we will open up for the question and answer.

Anantshree Chaturvedi: Thanks Rajesh, thank you Mr. Bhatia. I would like to give an update. First of all, it is wonderful to be on this call and happy celebrations and holidays to everyone who are celebrating in India this week. I would like to talk a little bit about Uflex and where we are today from a strategic perspective. So if you take a look at our past projects and our rate of developments and rate of growths over the last couple of years, you see that we have grown in sectors like Asepto and liquid and new product divisions. While at the same time, we have actually worked very hard pretty much since 2013 to consolidate our global commodity businesses and that includes our packaging business of India as well which is very interesting healthy mix of specialty and commodity, but we have done I think an excellent job consolidating our global access and then resetting the strategy for where the direction of those businesses are really going to go. In this quarter, after long time, we are getting some relief which is a natural market relief on the prices of polyester and other sort of substrates. BOPP and other things are also beginning to catch up, although that market is going through a very distinct time right now, but if you look at our major product which is polyester, PET films, we are going through a very interesting cycle from consolidation to now planning ourselves to growth but a very strategic kind of growth which is basically very product specific. If you have been following some of the new stories and some of our product developments, you will see that in PACK EXPO this year, we launched variety of new products.

Our balloon film specialised for the balloon market are high barrier metalized film, which is one of the highest barriers that any film can achieve and actually competes with films from other non-Indian, another sort of Asian and European manufacturers and then our nylon replacement firm which is basically taking advantage of the fact that the nylon market had a huge shortage over the last couple of years and no PET film today can be replicate those kind of barriers and substrate. So our film is the step in the right direction from that perspective. The film that actually has everyone buzzing has been our concept film, so the idea really, I took it from automotive where you launch a concept, car to showcase the designed direction and the technology direction in the firm that the particular companies sort of headed into. We said why not apply the same concept in packaging and in polymers and we launched a concept film which is the world's first completely disruptive, completely unique product which is about 40% less dense than the current films that any film that exist in the market today, but it is double the strength and double the barrier. Along with being 40% less dense because we are using 40% less material which actually also significantly greener and much more easily biodegradable and much better for the environment. So this concept film "VYOM" which is about 8 to 12 months away from actual production is a very good indication of where Uflex R&D is headed.

We are really a company that is in transition between our today, our stable of commodity and speciality product to now going towards much more specialty product and reaching a point where the majority of what we do is speciality with sort of a baseline in commodity because we have to participate a little bit in that market and provide customers the overall solutions, the overall packaging solutions, the micro-packaging solutions that our customer seek. So you can see that is the sort of design and implementation direction that Uflex is there**.** Mr. Bhatia talked very interesting things about sustainability. That also is actually a fantastic opportunity that we are seeing about today from a product perspective. Sustainability is something that we have been discussing especially in the internal polymer tables for a very long time. A lot of different solutions exist in the market today, a lot of different solutions exist to go green and there are different varying degrees of biodegradability and different types of that biodegradability that we all can read about; however, this realistically conversation starting about sustainable films and about really making films that are good for the environment and provide a very low carbon footprint.

If you look at our portfolio where the market actually current market leader in that, we are the only film maker in the world that makes 90% postconsumer recycle waste film; however, taking 90% of the raw material from used postconsumer recyclable waste, bottles, packets of chips and etc. and through our unique process, we are converting it back into actually base film that has been used in variety of markets. The lead of this has been really the market for labels and if you read recently about another sort of label manufacturers going towards this direction with 90% TCR where a few companies can provide that solution, really only us that have taken a lead in that. So, very interesting things from that perspective, but the key thing, I think the key takeaway is that where the company should have been transitioned and we are transitioning our R&D development and the way we developed new products and deploy new products from now global perspective and a sort of global exposure on both western front as well as the Asian way of launching and sort of going after this new products and these new opportunities.

The same way if you look at our pricing strategy when it comes to our current range of products, we have taken the most aggressive stand in the market and we are getting the most value for our investors in terms of getting the best, the lion share of the price increase that we can get after from the market place. If you do a market survey, you will see that Uflex ranks currently the number one price leader in the market in most of the areas that we are participating in and that has been a very strategic focus by our chairman, myself and the senior management team to go after the global markets in that way to get the best lion share of returns. Mr. Bhatia, Mr. Agarwal, that is it from my side. I think we can open up the questions.

RajeshAgrawal: Thank you, Mr. Chaturvedi. Karuna, we can take questions.

Moderator: Sure. Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rahul Veera from Abacus Asset Management. Please go ahead.

Rahul Veera: Just wanted to understand in terms of the pricing power of our company, how much is it easier to pass on the prices with the crude price is playing a spoil sport and also the demand supply mismatch in the BOPET, how is it affecting us? What are our views from medium to long-term perspective?

Rajesh Bhatia: I think if you look at the way the demand is for the BOPET films, I think both India and overseas, it is very evident that we are increasing volumes, the film volumes this quarter, the packaging film volumes this quarter has gone up by about 9% and as we said on the earlier calls that we fully sold out in Poland, we fully sold out polyester in US, we fully sold out in Egypt, which means that as you increase your capacity utilizations, so your pricing power is much better when you go through these kind of the cycles where the raw material prices are increasing and if you see for the last two quarters, when the prices are increasing for the crude raw material, so we have been able to pass on to the customers fully till date and the demand supply on the polyester side looks quite sort of good and we feel that sometime in the near future, we will have to look at sort of a capacity expansion at our overseas. So that we don't lose our turnover market share and somebody takes away that. Currently, the demand supply and the raw material pricing being passed on to the customer, I can say that it is much more than even the raw material prices has been passed on to the customer as Anantshree said that we have taken a leadership position in the pricing both driven by the value adds to the customers as well as delivering them the committed quantities and the quality. So obviously from a price point today, there is clearly we have seen a margin expansion in BOPET in this quarter.

Rahul Veera: Sir, any large BOPET projects do you see coming up in the next 2 to 3 years?

Rajesh Bhatia: I think we not too focused on that, but clearly, I find that next 2 years the sales would be a bit stable. Next 18 to 24 months, the things look to be a bit stable. There will be capacities coming in, it is not that the capacities will not be coming in but are they going to destabilize the demand supply situation, I think the answer is no. That is what it looks like.

Moderator: Thank you. The next question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: I have a few questions. The questions basically I wanted to first find out what are the spreads in the films, in BOPET and BOPP, India and international?

Rajesh Bhatia: I see that currently if we look at, obviously we are making our overseas businesses in the films is making a higher margin than India, so India if I tell you that in the last quarter we had situation where the prices for the BOPET films were about Rs. 140 and the raw material cost was about Rs. 90, so there is about a Rs. 50 gross value addition. In the overseas markets particularly in the matured markets, it is a bit higher than what we had in India in this quarter.

Jiten Parmar: And this price lag, we talked about it in the last conference call also, now crude moderating, will it help us in the further quarters or how does it work?

Rajesh Bhatia: So I think demand supply is what drives the prices on the film side, okay, so if the crude moderates and it is more stable and all that, it will bring more stability to the packaging business which today because of a huge variation that we have seen in this quarter. For the last 2 quarters, I have said, not even this quarter has been a bit underperforming because last quarter and again this quarter, the prices increased substantially for the crude and because they work on a lag effect, so their performance goes down but for us the margins in the film businesses had been improving given the demand supply equilibrium situation in the polyester film industry. So we have been able to offset that sort of lag effect to a very large extent and that is why you find that even with that lag effect, the EBITDA has improved. Given the constant prices, I think it will augur well for the packaging business.

Jiten Parmar: So on Asepto, have you been able to add any clients and I mean what is the status there, is the plant EBITDA positive or does it still burn money or what is the status and also on the machinery, we had some issues with machinery and all that. Is that getting sorted out? Machinery means I am talking about the packaging machine on the client side.

Rajesh Bhatia: So on the plant side, we are still not EBITDA positive. So then if we are not EBITDA positive, there is no question of interest and depreciation recovery. We today at about 32 customers in all 3 segments and our trial runs at 67 customers have been successfully completed. Some of the customers who are importing these from China and they are also affected in a big way because of this rupee depreciation, so they are also close to finalizing the big contract with all these customers also who deem China customers because they also are looking for more price stability and the local availability which is, they can order as per their immediate requirements and they don't have to import it, so their import loss can be much smaller. On the filling lines, we have already commissioned two and we closed the deals for 7 lines and the rest we will complete by the end of this fiscal.

Jiten Parmer: So my next question is basically on this transition of the company towards speciality and value-added solutions, would that be a part of the company in the sense that revenue and bottomline rise is the next 3 or may be even 5 years, if some colour can be thrown on that? What is our aim?

Rajesh Bhatia: I think I will request Anantshree to kindly help us with his insights on to that.

Anantshree Chaturvedi: Could you repeat the question?

Jiten Parmar: Since we are having the transition from more of commodity business to speciality solutions, how much of that would reflect in revenue in the next 3 to 5 years?

Anantshree Chaturvedi: Honestly, our targets are to have it reflect completely on revenue. If you look at it, our average margin is today somewhere between 13 to 17% if you average it out across the board. Our target is to take this above 25% especially within the next 3 to 5 years which is a very long term view in our perspective and from our business cycle perspective. Our target is to raise the average margins across the board, but especially start capturing margins that are between the range of 25 to 35% as opposed to playing in places where the margin has been traditionally in our business between 5% to 15% which as 15% being the excellent category of the margin. So our entire focus is basically on putting up the bottomline numbers which of course take into account topline growth and topline numbers. Our entire focus is to do this from a revenue perspective in complete totality.

Jiten Parmar: My next question is basically on the BOPET. Since BOPET is not recyclable and there have been instances where especially in Maharashtra, there are lot of issues from the pollution control board about EPR and all that. What are we thinking in terms of if something happens to BOPET, if there is a ban or something, how are we going to mitigate that risk?

Anantshree Chaturvedi: Sure. Let me answer that. If you look at the Maharashtra ban, it is really to be honest will give you more focus on really under polyethylene market. It is cheap plastic wire and cheap plastic polymers that are very commonly thrown about and shown in litter categories and things like that. Unfortunately, polymers in general transaction and plastics in general have a poor PR with regards to getting blanket bans or things like that, but if you look at BOPET by itself, in isolation or even in a metalized form is actually recyclable. You can bring it back to someone like us and we will reprocess it and make it again which is what we are doing. If you look at our postconsumer recycle waste film which I talked about in our call which we are doing about. We are taking 90% of our films comes from raw materials that are not coming from crude and those are being collected from a landfill being brought to a reprocessor like us, reprocessing them and putting them back into our film. So, BOPET by itself, I don't believe those are under threat; however, there are alternatives that we already have within our portfolio. So if you look at our green film which we take a combination of raw material from sugarcane molasses as well as Algin, and you combine that with our postconsumer recycle waste film, we are actually making 100% green oxybiodegradable films and variety of biodegradable films, so our options that already exist as well as our R&D is working on other options that are looking at a variety of solutions, some of them are very disruptive when it comes to recyclability and clearing up the landfill problem in the future. Uflex, I would say we are trying to take a lead in being one of the companies in doing that especially in the Asian and the Indian subcontinent from that perspective, but there is a wide variety of technologies that we are seeing in this plain, trade shows and in meeting with our technology partners and our vendors that is coming about. So a blanket ban if you see at, even the Maharashtra ban had a limited effect on the actual amount of polymer consumption because this is really know it will replace the high barrier structures that factory provides today with paper, aluminium or glass with the same cost effectiveness and the same logistic advantages and the same sort of durability and robustability. So it is a moving target. Sadly, I can't give you a very specific answer, but the most specific answer is the clearer the regulation will be and clearer the rules will be with regards to landfill recyclability and what is banned and what is not banned that will help shape the future of the industry quite a bit. Unfortunately, right now, with the vagueness with which government policies not only in India but all across the world, even globally the vagueness with which this is implemented, it does not lead to a specific outcome any which way.

Moderator: Thank you. The next question is from the line of Ayush Bhutada from Equitas Investments. Please go ahead.

Ayush Bhatuda: Sir, I wanted to ask, so when do you see, now that BOPET situation has stabilized and the margins have been good, so for how longer this packaging could be, how long are the margins expected to remain at this level?

Rajesh Bhatia: I think that we have already answered that question that we see a stable market for the BOPET for the next 18 to 24 months.

Ayush Bhatuda: 18 to 24 months and for BOPP, when do you expect the situation to stabilize like?

Rajesh Bhatia: I think the first is already over there, we saw it in the last quarter. So this quarter is a slight improvement over the last quarter, but difficult to really predict that as we stand today.

Ayush Bhatuda: Sir, I wanted to ask about the JBF industry the plant that has shut down, so what is the situation over there going like, is it going to revive the plant which can affect your demand supply situation again?

Rajesh Bhatia: I think there is some solution around their Indian operations. We have no news of their other factory in Dubai starting up.

Ayush Bhatuda: But if that starts,will it affect the BOPET margins again like the demand supply situation, will it get affected because of that if that revive?

Rajesh Bhatia: I don’t think so really. It is not going to be a major differentiator.

Moderator: Thank you. The next question is from the line of Kunal Bhakta from First Water Capital. Please go ahead.

Kunal Bhakta: I have a question on Asepto, continuing from the discussion with another participant, so given that we are currently not EBITDA positive, what is the capacity utilization level that we are foreseeing over the coming 2 to 3 quarters and what is our target in terms of breaking even first on an EBITDA level and secondly at a level where we can absorb the interest and depreciation as well?

Rajesh Bhatia: I think as we have already guided, we are looking at an exit run rate of about 1.5 billion packs by March.

Kunal Bhakta: What would that translate into in terms of utilization levels?

Rajesh Bhatia: So that is about 45%.

Kunal Bhakta: So 45% for the last quarter, Q4?

Rajesh Bhatia: Yes, at which levels, we will be a bit positive on the operating costs.

Kunal Bhakta: And most of this is likely to come as a ramp up from the 32 customers who are already on board or you see any regards in respect of the customers who are currently under approval?

Rajesh Bhatia: So the approval customers also, I think we will have a fair amount of clarity as to how those things are panning out. Our good part is that all those customers are engaged today. There are trial runs, multiple trial runs, which are going through with those customers, so at some point in time, they will be converted into the business because if they are serious only then only they are spending time and money to make these trials and take up these trials and all that.

Kunal Bhakta: So as Mr. Chaturvedi mentioned that going forward in terms of the value-added products, 25% is what is the target in terms of EBITDA on that set of products, so to say, so is Asepto also something where we can look at…

Rajesh Bhatia: No, Asepto is not part of that. What he said about the value-added films what we want to do with which we are separately focused on, so that does not include Asepto.

Kunal Bhakta: Right, but on Asepto, we would obviously have better margins than the rest of our product basket?

Rajesh Bhatia: So Asepto, we will be happy anyway in the range of 18 to 22% EBITDA margins depending on the level of utilization of the plant.

Kunal Bhakta: The other question is more on the capital allocation. So our industry, our peers like Polyplex etc., they have been having pretty high dividend pay outs and they have also gone on record to say that because a lot of cash has been sitting overseas with overseas subsidiaries and the same holds true for us. Given that there has been a rupee depreciation, does it make sense for us to plough that some of the capital in the overseas subsidiaries to the parent?

Rajesh Bhatia: We don't have a discussion on this as the management team as yet and that is why, I think it is not possible for us to answer this.

Kunal Bhakta: Is this something that you would like to define internally in the coming quarter or by next quarter do you think we can hear something on this?

Rajesh Bhatia: I think we will put it up to the management, to our Chairman and then let us see because I really can't say that whether we have, we will use that capital to grow or bring that capital to return back to India.

Kunal Bhakta: And on the holography division expansion, what is the timeline, when do we expect ramp up on that?

Rajesh Bhatia: I think we have been delayed on that, so probably by the end of this fiscal, we will have that completed.

Kunal Bhakta: And we are setting up a Greenfield in Ireland, but I believe we already have something in Poland, so wouldn't that have been a better choice to do a brown field there?

Rajesh Bhatia: Who said that we are doing a Greenfield in Ireland?

Kunal Bhakta: Sorry, you are planning to expand in Ireland, right?

Rajesh Bhatia: No, we have not said that.

Rajesh Bhatia: Ireland may be for some different purpose or some, we there today in UK and given that if there is a Brexit issues and all that, we are just preparing ourselves.

Kunal Bhakta: Understood, so it is more from a market access point of view rather than anything else.

Rajesh Bhatia: Yes.

Moderator: Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain: Sir, most of the questions have been answered. I just want one clarity. What Mr. Anantshree was saying that he has desired to achieve margins, overall consolidated margins of around 25% in next 3 to 5 years, is it right?

Rajesh Agrawal: No.

Runjhun Jain: What was it sir which I missed.

Rajesh Bhatia: No, he said that we are looking to develop the value-added products which will give us the margins in that range as compared to a conventional commoditized films, which gives you a margin in the range of 5 to 15%.

Runjhun Jain: So those are the specific products probably we were talking about?

Rajesh Bhatia: Yes, absolutely.

Runjhun Jain: Sir, just seeing on this quarter, we have seen quite a sharp increase in the power and fuel, so this is something due to the enhanced production of Asepto or this is something overall because the raw material price inflation we have seen?

Rajesh Bhatia: So, I think because of the increase in the prices of diesel and petrol, the transportation has become expensive. Some of the plants where we use the DG sets and all that stuff in some of the units, the power costs have gone up because we buy power from the grid or we generate our own power also at times. So all the raw materials relating to energy costs have gone up, so that is why this cost. A part of this is also because of the higher volumes, a part of this is also because of the higher costs during this quarter.

Runjhun Jain: Margins have been on subdued basis if you have seen the last 5 to 7 quarters if you have seen, so any?

Rajesh Bhatia: See, the margins are not subdued currently, so that is what is the misnomer because what happens in our industry is if the crude move, so suppose today when the crude is $50, suppose I make 13% EBITDA margin. At a crude when it is $80, I will still make that absolute margin which in terms of my revenue will may become 12.5% and that is how we see it in the context of higher revenues, but those revenues are only cost neutral. They don't give me an extra EBITDA margin unless there is that the margin expansion because of the demand supply situation. So our crude price increase of almost 46% in Q2 as compared to in Q2 of last year, so that gets reflected in the topline but difficult to say that it should give you, your margins will remain the same.

Moderator: Thank you. The next question is from the line of Dhani Ram Sharma, an Individual Investor. Please go ahead.

Dhani Ram Sharma: My question is any planning to unlock value of Noida land in future?

Rajesh Bhatia: No there is no such thought at this point in time.

Dhani Ram Sharma: And what about the Sanand plant capacity utilization?

Rajesh Bhatia: We have already answered that question by saying that by end of this fiscal we should be looking at about 40% to 45% capacity utilization of that.

Moderator: Thank you. The next question is from the line of Ameya Mahurkar from Emkay Global. Please go ahead.

Ameya Mahurkar: Sir, what are your expansion plans in India and outside India?

Rajesh Bhatia: So no expansion plans in India. On our global side, as I have been saying that we are actually doing better than our assigned capacities and all that and there may be some opportunities there to do a brownfield or Greenfield expansion, so I think we will do some expansion for our overseas BOPET facility in EU. India, there is no expansion plan.

Ameya Mahurkar: Sir, can I get volume details for film business converting and aseptic?

Rajesh Bhatia: No.

Moderator: Thank you. The next question is from the line of Mohit Agarwal from India Capital. Please go ahead.

Mohit Agarwal: My question is basically on, just a follow up question on the margins we have been discussing in the call. On an absolute basis, if you see on the second quarter, our gross profit has gone up by roughly around 110 crores, but if I see the cost, most of the cost heads have gone up by like 25%-30%, the power and fuel, the HR expense, interest and depreciation I understand is on account of Asepto, but even the other cost has gone up by 25%-30% which has basically eaten away all the absolute gross margin addition we have done over the last year. So in effect we are continue to having the same bottom-line and we are already on not a very high return on the equity, so is the strategy to improve on return on equity or you think there is some scope of improvement in all these cost heads considering that we are already in a very robust business cycle and also capacity utilization?

Rajesh Bhatia: I think the capacity utilization levels will only go up from here, so we are seeing improved demand for BOPET in all the jurisdictions we are in, so we don’t see anything happening over there. I think a huge upside for us is in our flexible packaging including Asepto packaging business. So our packaging business we have total capacity of about 135,000 tonnes and today we are doing about between 85 to 90,000 tonnes a year. Asepto is clearly we have 3.5 billion packs capacity and we are looking to ramp up that, so in the next two years, the endeavour first is to get close to 135,000 tonnes of your packaging capacity as close as you can and also ramp up the aseptic packaging business and as I said that if there is an opportunity on the BOPET expansion just because you have to put at your turf in some of the jurisdictions where you are working, so we will look at an expansion over there, but our net effect of the first two things where you have capacity created and your utilization is currently low. That is what you need to ramp up to deliver higher returns to the stake holders.

Mohit Agarwal: Sir, can you tell me the size of interest in depreciation which is about 20 crores on account of Asepto obviously not recovered from the current operation, what is the other specific operational cost like what are the salaries, what are the power costs?

Rajesh Bhatia: We will not be able to share that much of data.

Mohit Agarwal: Can you tell us some kind of production level where you think which will be EBITDA positive, I am not asking you the final?

Rajesh Bhatia: We are EBITDA positive at about 30% capacity utilization also at our aseptic packaging business.

Mohit Agarwal: As on day today, what would you guess would be the utilization level?

Rajesh Bhatia: We will be close to that but we will rather like to give guidance that we are looking targeting at about 40, 45% capacity utilization run rate by the end of this fiscal.

Mohit Agarwal: One last question. What about the big clients? Can you tell us about these 32 clients a little bit in detail? What kind of revenue you are getting from the biggest of the 32 clients we already have and what kind of revenue or what kind of volume you see from the big ones. The ones we have been doing multiple trial runs as you said. So can you differentiate between those profiles at the big ones and so far what we have and how big they are**?**

Rajesh Bhatia: So we have about 60% of the clients who are in the juice business. We have about 15% client in the dairy business and rest in the liquor business. That's all I can currently share with you.

Moderator: Thank you. The next question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: My last question was on the tax side. Tax incidence has gone up. Is that because of some sops going away or?

Rajesh Bhatia: I think that is only because of the fact that in Egypt, we were so far zero tax paying company because of the investment incentives and all that, so from this fiscal we will have to pay our taxes in this. Poland, we are still in a tax-free period and in Dubai, we are still, Dubai is at any case no tax zone and again the Mexico we have a much improved performance this fiscal as compared to the last year and again that is the tax paying jurisdiction. So I think the net effect of these is a bit higher tax incidence on the company.

Jiten Parmar: What about India?

Rajesh Bhatia: India is almost the same.

Moderator: Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Sir, is it possible for you to give the breakup of operating profit in BOPET and BOPP?

Rajesh Bhatia: Absolutely not sir.

Siddharth Rajpurohit: Gross margins?

Rajesh Bhatia: I have given you our dominance where we have a dominant position as to what were the prices this quarter and what was the raw material cost this quarter. I think we can't drill down into more details to give you a product wise level.

Siddharth Rajpurohit: But the difference will be about Rs. 10 a unit or somewhere around that sir?

Rajesh Bhatia: BOPP is the market which is an oversupply market today, so definitely the margins are a bit lesser there. We had a situation in last quarter where in India people were even selling at their cost, just covering their costs as such. The market has become a bit better, Q2 versus Q1 but we still not giving any guidance purposely on that one, given that we are a very small player in that market and secondly, we still don't know where today the market goes. On the BOPET, I think I had given you enough data on as to what were the selling price points and the cost price points.

Siddharth Rajpurohit: So films will be what percentage of the packaging total sales that we have reported sir?

Rajesh Bhatia: I didn't get you.

Siddharth Rajpurohit: The film business will be contributing how much to the overall packaging or is it completely consumed in house?

Rajesh Bhatia: No, the films are partially sold in house in India, but overseas all the films that we make are sold outside India, sold to the third party. No part of that is used in our plants.

Siddharth Rajpurohit: That will be how percentage of the sales sir?

Rajesh Bhatia: If you say that overseas, H1 we had a revenue of $260 million in our overseas business.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for your closing comments. Over to you sir.

Rajesh Agrawal: Thank you everyone for joining us today and we look forward to staying in touch in future quarters. Have a nice day. Take care.

Rajesh Bhatia: Thank you everybody for being on the call.

Moderator: Thank you so much. Ladies and gentlemen, on behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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